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25X1A ONE ARTICLE FROM OER'S ECONOMIC INTELLIGENCE WEEKLY REVIEW
ENDING 15 DECEMBER 1978. REQUEST ARTICLE BE PASSED TO AMBASSADOR,
DCM, ECONOMIC SECTION AND OTHER WORKING LEVEL STATE OFFICERS.

MALAYSIA: STEADY GROWTH AHEAD FOR MANUFACTURED EXPORTS. (U)

1. WITH EXPORTS OF MANUFACTURED PRODUCTS CONTINUING
TO RISE THIS YEAR, MALAYSIA WILL JOIN AN EXCLUSIVE
GROUP OF LDC EXPORTERS WHOSE ANNUAL SALES OF MANUFACTURES
TOP \$1 BILLION. MALAYSIA RANKS EIGHTH AMONG LDC EXPORTERS,
AHEAD OF THE PHILIPPINES AND THAILAND BUT WELL BEHIND
SUCH MIDDLE-TIER EXPORTS AS SINGAPORE, INDIA, AND BRAZIL.
PLENTIFUL AND INEXPENSIVE LABOR, A RICH NATURAL RESOURCE
BASE, AND GOVERNMENT ENCOURAGEMENT HAVE ENABLED
MANUFACTURED EXPORTS TO GROW AT AN IMPRESSIVE 38 PERCENT
ANNUALLY IN THE 1970S. THESE GAINS HAVE BEEN BASED
LARGELY ON THE EXPORT OF TRANSISTORS AND OTHER SEMICONDUCTORS,
PHONOGRAPH AND RADIO PARTS, WOOD MANUFACTURES, AND
CLOTHING TO OECD MARKETS. (&) (U) (EXPORT DATA IN THIS ARTICLE
INCLUDE THE LARGE VOLUME OF SEMIPROCESSED TIN EXPORTS WHICH
DISTORT UNDERLYING TRENDS IN MANUFACTURED EXPORTS, TIN
EXPORTS AMOUNTED TO \$760 MILLION IN 1977.) (U)

2. DESPITE SOME SLOWDOWN IN TOTAL EXPORT GROWTH
OVER THE NEXT SEVERAL YEARS, MALAYSIA SHOULD CONTINUE
TO DO WELL IN SELECTED MARKETS. BY THE EARLY 1980S

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EXPORTS OF MANUFACTURED GOODS ALMOST CERTAINLY WILL APPROACH THE \$2 BILLION MARK, AS THE GOVERNMENT CONTINUES TO CAPITALIZE ON WAGE RATES BELOW OTHER ASIAN LDC MANUFACTURING CENTERS. MOREOVER, KUALA LUMPUR IS TAKING A PRAGMATIC APPROACH TOWARD IMPLEMENTING ITS POLICY OF "MALAYANIZING" THE ECONOMY TO SUSTAIN INFLOWS OF FOREIGN INVESTMENT IN MANUFACTURING. (U)

EXPORT DYNAMICS.

3. EXPORT GROWTH IN THE 1970S STEMS FROM ECONOMIC POLICY DECISIONS TAKEN AFTER SINGAPORE'S SEPARATION FROM THE MALAYSIAN FEDERATION IN 1965. AT THAT TIME THE MALAYSIAN GOVERNMENT VIEWED DEVELOPMENT OF EXPORT-ORIENTED MANUFACTURING INDUSTRIES AS A MEANS (A) CUSHIONING FLUCTUATIONS IN EXPORT EARNINGS OF RAW MATERIALS; (B) REDUCING THE HISTORIC DEPENDENCE ON SINGAPORE FOR PROCESSING AND UPGRADING MALAYSIA'S RAW MATERIALS; AND (C) CREATING EMPLOYMENT OPPORTUNITIES FOR A RAPIDLY GROWING AND INCREASINGLY YOUTHFUL LABOR FORCE. SERIOUS ANTI-CHINESE RIOTS IN 1969 BY NATIVE MALAYS SPURRED THE GOVERNMENT TO GREATER EFFORTS TO ACCELERATE ECONOMIC GROWTH. IN 1970, KUALA LUMPUR ENACTED THE INDUSTRIAL COORDINATION ACT TO INCREASE THE SHARE OF NATIVE MALAYS IN THE ECONOMY; THE GOVERNMENT HOPED TO RAISE THE OVERALL SHARE OF MALAY OWNERSHIP FROM THE THEN EXISTING 3 PERCENT TO 30 PERCENT BY 1990. IN 1971-75, MALAYSIA ESTABLISHED FIVE FREE TRADE ZONES TO ENCOURAGE INVESTMENT IN MANUFACTURING AND TO CREATE JOB OPPORTUNITIES FOR THE GROWING LABOR FORCE. MALAYSIA HAS ALSO PERIODICALLY IMPROVED THE BENEFITS TO BUSINESS ENTERPRISES PROVIDED UNDER THE INVESTMENT INCENTIVE ACT OF 1968. (U)

4. THE GOVERNMENT'S SUCCESS IS WITNESSED BY THE RISE IN MANUFACTURED EXPORTS FROM \$100 MILLION IN 1970 TO ALMOST \$1 BILLION IN 1977. IN THE PROCESS, MALAYSIA HAS BROADENED ITS MANUFACTURED EXPORT PRODUCT MIX TO INCLUDE TRANSISTORS AND OTHER SEMICONDUCTORS, PHONOGRAPH AND RADIO PARTS, AND WATCHES AND AUTOMATIC CONTROL DEVICES IN ADDITION TO PROCESSED RAW MATERIALS. CONSUMER GOODS ACCOUNTED FOR MORE THAN 30 PERCENT OF THE OVERALL GAIN

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IN MANUFACTURED EXPORTS SINCE 1970, TRANSISTORS AND OTHER SEMICONDUCTORS 40 PERCENT, PROCESSED RAW MATERIALS (MAINLY WOOD AND RUBBER PRODUCTS) ALMOST 15 PERCENT, AND CAPITAL GOODS AND MISCELLANEOUS ITEMS ABOUT 15 PERCENT. (U)

5. MANUFACTURING IN MALAYSIA RUNS THE GAMUT FROM LABOR-INTENSIVE ASSEMBLY OPERATIONS TO CAPITAL-INTENSIVE HEAVY INDUSTRIAL PRODUCTION SUCH AS OIL REFINING AND STEEL MANUFACTURING. MUCH OF EXPORT MANUFACTURING IN SUCH FIELDS AS RADIOS AND ELECTRIC APPLIANCES CONSISTS OF LABOR-INTENSIVE ASSEMBLY OF IMPORTED PARTS INTO FINISHED PRODUCTS. LIKEWISE, MALAYSIAN WORKERS IN ELECTRONIC FACTORIES IN THE FREE TRADE ZONES ASSEMBLE IMPORTED INTEGRATED CIRCUITS AND OTHER PARTS INTO CALCULATORS AND OTHER CONSUMER PRODUCTS. (U)

MARKET PENETRATION.

6. IN THE 1970S, OECD COUNTRIES HAVE REPLACED ASIAN LDCS AS MALAYSIA'S LARGEST MARKET FOR MANUFACTURED EXPORTS. FOREIGN SALES TO OECD COUNTRIES INCREASED FROM \$32 MILLION IN 1970 TO NEARLY \$600 MILLION IN 1977, LARGELY THE RESULT OF INCREASED SALES OF SEMICONDUCTORS, PHONOGRAPH AND RADIO PARTS, AND CONSUMER GOODS TO THE UNITED STATES, WEST GERMANY, AND JAPAN. STILL, MALAYSIA HOLDS ONLY A SMALL SHARE OF THE OECD MARKET, PROVIDING 0.3 PERCENT OF MANUFACTURED IMPORTS IN 1977. EXPORTS TO LDCS GO MAINLY TO OTHER EAST ASIAN COUNTRIES, ESPECIALLY SINGAPORE AND HONG KONG. (U)

UNITED STATES.

7. THE UNITED STATES IS MALAYSIA'S LEADING CUSTOMER FOR MANUFACTURED EXPORTS. LED BY SALES OF TRANSISTORS AND OTHER SEMICONDUCTORS, WOOD MANUFACTURES, AND PHONOGRAPH AND RADIO PARTS, EXPORTS OF MANUFACTURED GOODS TO THE US MARKET REACHED ALMOST \$280 MILLION IN 1977. MALAYSIA HAS DONE EXCEPTIONALLY WELL IN EXPORTING SEMICONDUCTORS, RAISING ITS SHARE OF THE US IMPORT MARKET FROM ZERO TO 4.9 PERCENT SINCE 1970. AS FOR PHONOGRAPH AND RADIO PARTS, MALAYSIA HOLDS A 0.6-PERCENT SHARE OF

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THE US MARKET, UP FROM ZERO IN 1970. OVERALL, MALAYSIA'S SHARE OF THE US IMPORT MARKET IN MANUFACTURES HAS GROWN FROM 0.1 PERCENT IN 1970 TO 0.5 PERCENT IN 1977. (U)

OTHER OECD.

8. MANUFACTURED EXPORTS TO THE EC REACHED \$185 MILLION IN 1977, GOING MAINLY TO WEST GERMANY AND THE UNITED KINGDOM WHERE MALAYSIA HAS A 0.4-PERCENT SHARE OF THE IMPORT MARKET. (8) ((MALAYSIA'S MARKET SHARE IN EC COUNTRIES DECREASES CONSIDERABLY WHEN INTRA-EC TRADE IS TAKEN INTO ACCOUNT, DROPPING FROM 0.3 PERCENT TO 0.1 PERCENT OF ALL EC MANUFACTURED IMPORTS. ITS SHARE OF BOTH WEST GERMANY'S AND THE UNITED KINGDOM'S MANUFACTURED IMPORTS, FOR EXAMPLE, DROPS TO 0.2 PERCENT.)) (U) LIKE SEVERAL OTHER LDCS, MALAYSIA HAS FOUND THAT PENETRATION OF THE CLOTHING AND TEXTILE IMPORT MARKETS GENERATES STRONG PROTECTIONISTS REACTION; UNDER RESTRICTIONS IMPOSED BY THE EC THIS YEAR, MALAYSIA'S SHARE OF ITEMS SUCH AS KNITTED SHIRTS, T-SHIRTS, BLOUSES, AND WOVEN SHIRTS ARE LIMITED TO AN OVERALL QUOTA OF 9.5 MILLION PIECES ANNUALLY FOR FIVE YEARS. DESPITE PROXIMITY TO JAPAN, SALES TO THAT MARKET AMOUNT TO LESS THAN \$60 MILLION ANNUALLY. (U)

LDCS.

9. SALES OF MANUFACTURED GOODS TO LDCS MORE THAN QUINTUPLED TO \$350 MILLION FROM 1970 TO 1977. SINGAPORE, MALAYSIA'S SECOND LARGEST MARKET FOR MANUFACTURES, TOOK \$205 MILLION IN 1977, FIVE TIMES THE AMOUNT BOUGHT IN 1970. SEMICONDUCTORS, WOOD MANUFACTURES, AND WATCHES ARE LEADING EXPORTS TO SINGAPORE. THIS SAME GROUP OF PRODUCTS BOOSTED SALES TO HONG KONG FROM \$5 MILLION IN 1970 TO \$42 MILLION LAST YEAR. OTHER ASIAN LDCS, INCLUDING THE PHILIPPINES AND THAILAND, TOGETHER IMPORTED \$44 MILLION OF MALAYSIA'S MANUFACTURED EXPORTS IN 1977. (U)

COMPETITIVE FACTORS.

10. MALAYSIA HAS CAPITALIZED ON SEVERAL BASIC ECONOMIC STRENGTHS TO SPUR EXPORTS OF MANUFACTURED

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PRODUCTS IN THE 1970S. RICH NATURAL RESOURCES, PARTICULARLY TIMBER, HAVE UNDERPINNED SEVERAL EXPORT MANUFACTURING INDUSTRIES. A WELL-EDUCATED LABOR FORCE OF 4.5 MILLION AND COMPETITIVE WAGE RATES HAVE ALSO GIVEN MALAYSIAN EXPORTS AN ADVANTAGE. IN 1977 AVERAGE HOURLY EARNINGS IN MALAYSIA OF 52 CENTS WERE ABOUT 20 PERCENT LOWER THAN EARNINGS IN SOUTH KOREA, TAIWAN, AND SINGAPORE. MALAYSIA HAS ALSO BENEFITED FROM ITS PROXIMITY TO SINGAPORE, WHICH GIVES MALAYSIAN FIRMS ACCESS TO THAT COUNTRY'S INTERNATIONAL FINANCIAL AND COMMERCIAL CONNECTIONS. (U)

11. MALAYSIA HAS SEEN SOME OF ITS EXPORT COMPETITIVENESS ERODE IN THE LAST THREE TO FIVE YEARS. AVERAGE DOLLAR PRICES OF ITS MANUFACTURED EXPORTS HAVE INCREASED SLIGHTLY FASTER THAN THE PRICES OF ITS REGIONAL COMPETITORS. LABOR PRODUCTIVITY HAS INCREASED ONLY 2.7 PERCENT ANNUALLY SINCE 1973, SUBSTANTIALLY LOWER THAN GAINS ACHIEVED BY SINGAPORE AND SOUTH KOREA. WAGES HAVE BEEN RISING, BUT UNIT LABOR COSTS ARE STILL BELOW COSTS IN OTHER ASIAN EXPORTING NATIONS. SOME OF THE UPWARD PRESSURE ON EXPORT PRICES HAS BEEN OFFSET BY DEPRECIATION OF THE MALAYSIAN RINGGIT. SINCE EARLY 1975, THE RINGGIT HAS DEPRECIATED ON A BILATERAL, PRICE-ADJUSTED BASIS 15 PERCENT AGAINST THE US DOLLAR, 14 PERCENT AGAINST THE WEST GERMAN MARK, AND 26 PERCENT AGAINST THE JAPANESE YEN. (U)

12. MULTINATIONAL CORPORATIONS HAVE PLAYED A KEY ROLE IN EXPORT GROWTH, PARTICULARLY IN THE ELECTRONICS INDUSTRY, WHICH NOW EMPLOYS 50,000 WORKERS. AMONG THE LEADING US MULTINATIONALS OPERATING IN MALAYSIA ARE MOTOROLA, RCA, AND TEXAS INSTRUMENTS; FOREIGN MULTINATIONALS INCLUDE MATSUSHITA AND THE DUTCH ELECTRONICS GIANT, PHILIPS. THE MULTINATIONALS HAVE USED MALAYSIA AS A BASE TO SUPPLY BOTH DEVELOPED COUNTRY AND LDC MARKETS; IN THE PROCESS, THEY HAVE MADE MALAYSIA ONE OF THE MAJOR EXPORTERS OF SEMICONDUCTORS AND ELECTRONIC PRODUCTS IN THE WORLD. (U)

GOVERNMENT POLICY.

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13. KUALA LUMPUR HAS USED A VARIETY OF DIRECT AND INDIRECT INCENTIVES TO SPUR EXPORTS OF MANUFACTURED PRODUCTS INCLUDING (A) ACCELERATED DEPRECIATION ALLOWANCES FOR FIRMS EXPORTING 20 PERCENT OR MORE OF OUTPUTS; (B) INCOME TAX DEDUCTIONS FOR PROMOTION EXPENSES; (C) INCOME TAX DEDUCTIONS FOR INCREASING EXPORT SALES THAT INCORPORATE DOMESTIC MATERIALS AND COMPONENTS; (D) EXPORT FINANCING AT PREFERENTIAL INTEREST RATES; AND (E) SUBSTANTIAL TECHNICAL MARKETING ASSISTANCE FROM THE MINISTRY OF TRADE. (U)

14. TO BOOST FOREIGN INVESTMENT INFLOWS, KUALA LUMPUR IS CURRENTLY CONSIDERING THE SWEETENING OF THE INCENTIVES PACKAGE AS WELL AS IMPROVEMENTS IN PORTS AND INLAND TRANSPORTATION SYSTEMS. IN RESPONSE TO FREQUENT INVESTOR COMPLAINTS ABOUT RED TAPE FOR NEW VENTURES, THE GOVERNMENT RECENTLY INTRODUCED PROCEDURES TO MAKE THE FEDERAL INDUSTRIAL DEVELOPMENT AUTHORITY TRULY A ONE-STOP PROMOTION AGENCY. AS PART OF THE EFFORT TO GARNER NEW FOREIGN INVESTMENT, GOVERNMENT TRADE OFFICIALS THIS YEAR SPONSORED INVESTMENT CONFERENCES IN THE UNITED KINGDOM, WEST GERMANY, FRANCE, DENMARK, AND THE UNITED STATES. (U)

15. KUALA LUMPUR GOES TO GREAT LENGTHS TO ASSURE POTENTIAL FOREIGN INVESTORS THAT ITS POLICY OF FOSTERING GREATER PARTICIPATION IN THE ECONOMY BY NATIVE MALAYS POSES NO THREAT TO THEIR INTERESTS. ALTHOUGH PREFERRING JOINT VENTURES WITH MAJORITY OWNERSHIP IN MALAY HANDS, THE GOVERNMENT HAS SHOWN CONSIDERABLE FLEXIBILITY TOWARD THE ALLOWABLE SHARE OF FOREIGN OWNERSHIP. INDEED, IT WILL PERMIT 100-PERCENT FOREIGN OWNERSHIP IF THE PROJECT IS ENTIRELY EXPORT ORIENTED. (C)

16. THE BENEFITS OF THE GENERALIZED SYSTEM OF PREFERENCES (GSP) TO MALAYSIA HAVE BEEN PARTIALLY OFFSET BY RECENT RISES IN NONTARIFF BARRIERS, SUCH AS QUOTAS ON CLOTHING AND TEXTILES. EVEN SO, MALAYSIA IS ONE OF ITS IMPORTANT BENEFICIARIES, PARTICULARLY IN US AND EC MARKETS. IN 1976, \$210 MILLION WORTH OF ITS MANUFACTURED EXPORTS WERE ELIGIBLE FOR GSP COVERAGE, ABOUT ONE-TWENTIETH OF THE TOTAL BENEFIT ACCRUING TO ALL LDCS. MALAYSIA HAS

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CAMPAIGNED FOR INCREASED GSP COVERAGE OF ITS EXPORTS. LAST YEAR, FOR EXAMPLE, IT JOINED OTHER MEMBERS OF ASEAN (SINGAPORE, INDONESIA, THE PHILIPPINES, AND THAILAND) IN URGING THE DEVELOPED COUNTRIES TO EXTEND PRODUCT COVERAGE, DEEPEN TARIFF CUTS, AND LIBERALIZE RULES OF ORIGIN. (U)

MOVING INTO THE 1980S.

17. WE EXPECT MALAYSIA'S MANUFACTURED EXPORTS TO GROW AT 20 PERCENT ANNUALLY IN THE NEXT FEW YEARS, A PACE THAT WOULD RAISE FOREIGN SALES TO APPROXIMATELY \$2 BILLION BY THE EARLY 1980S. MALAYSIA SHOULD CONTINUE TO BENEFIT FROM ITS COMPETITIVE EDGE IN LABOR COSTS; THE ANNUAL ENTRY OF 150,000 YOUNG WORKERS TO THE LABOR FORCE, SHOULD MODERATE WAGE INCREASES OVER THE NEXT FEW YEARS. AS COUNTRIES SUCH AS TAIWAN AND SINGAPORE EMPHASIZE MORE CAPITAL-INTENSIVE INDUSTRIES TO OVERCOME RISING UNIT LABOR COSTS, MALAYSIA STANDS TO GAIN NEW LABOR-INTENSIVE MANUFACTURING OPERATIONS. INDEED, SINGAPORE'S PRIME MINISTER LEE KUAN YEW HAS SAID THAT HE HOPES MUCH OF HIS COUNTRY'S EXISTING LABOR-INTENSIVE INDUSTRY MOVES TO OTHER EAST ASIAN COUNTRIES--SUCH AS MALAYSIA--OVER THE NEXT SEVERAL YEARS BECAUSE HE SEES LITTLE HOPE OF REMAINING COMPETITIVE. (U) (CONFIDENTIAL) RVW 15 DEC 98 DRV
MULTIPLE BY 015319 WNINTEL.>

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